III Year-end Closing - Fiscal Month 13 Processing

This chapter discusses the entries and processes that agencies must complete after adjusting entries are posted. The automated year-end closing process is controlled by the Organization Control (OC) Table. See Volume 2, Chapter IV, Subchapter IV-OC, for a detailed explanation of the OC Table Indicators.

The new year OC Table is used for all FM 13 processes.

YEAR-END COST ALLOCATION OPTIONS

Any FM 13 accrual or adjustment entries that affect expenditures and encumbrances must be cost allocated and fund split. <u>Before</u> running cost allocation/fund split for FM 13, complete the following:

✪ Post all adjusting entries and other expenditure entries to FM 13; and

✪ If the OC Table Cost Allocation Run Type is **C**, reload statistics in FM 12 if applicable.

For agencies that allocate costs using the actual cost methodology, the allocation is normally based on year-to-date expenditures. However, the FM 13 cost allocation process will only allocate to PCAs with June activity (FM 12). This prevents costs from allocating to invalid PCAs.

See Exhibit III-1 for a summary of year-end cost allocation indicator options. Although four options are listed, most agencies select only **OPTION #3** for their FM 13 cost allocation process. Exhibit III-2 shows the various activities and the allocation base used.

EXHIBIT III-1
YEAR-END COST ALLOCATION RUN INDICATOR OPTIONS

To run the year-end cost allocation of accrued expenditures and/or encumbrances, one of the following combinations of run indicators must be set in the **new year** OC Table.

NOTE: Since multiple cost allocation processes may be run in one month, the Last Step Run Indicator must be set to **00** to start the current requested process.

OPTION	SYSTEM ACTION	COST ALLOCATION RUN IND	COST ALLOCATION RUN TYPE	ENCUMB-ALLOC IND
1	Allocate / Fund Split expenditures recorded as FM 13 activity only.	**C, Y**	**A**	**N**
2 [1,2]	Allocate / Fund Split encumbrance year-to-date (including FM 13) balances (records this activity in GLA 6151 to keep separate from monthly encumbrance activity in GLA 6150).	**C, Y**	**A**	**E**
3 [1,2]	Allocate / Fund Split both expenditures and encumbrances at the same time.	**C, Y**	**A**	**Y**
4	Allocate Variances (PCA Dist. Type 6) - only for those agencies that use standard costed PCA(s). Under the standard Costing Method, encumbrances are never allocated.	**C, Y**	**Y**	**N**

See Exhibit III-2 for the descriptions of the allocation base used.

_____

[1]   *If your OC Table PCA Method = 2, do not allocate encumbrances more than once.*

[2]   *Once the entry is made to adjust the allocated encumbrances credit from Administration to Distributed Administration, encumbrances* cannot *be reallocated.*

EXHIBIT III-2
EXPENDITURE vs. ENCUMBRANCE ALLOCATION

__Activity__	__Allocation Base Used__
Current Year Expenditures (Year Being Closed)	
MONTHS 01-12 Run type **S**	Prior month activity.
Run type **C**	Cumulative from inception through PM activity.
MONTH 13 Run Type **A** [1/]	Cumulative from inception through FM 13 but only to PCA(s) found in the base that have FM 12 activity. [2/]
Current Year Encumbrances (Year Being Closed)	
MONTHS 01-12 Run type **S** or **C** [3/]	Cumulative from inception through PM activity for both run types.
MONTH 13 Run Type **A** [1/]	Cumulative from inception through FM 13 but only to PCA(s) found in the base that have FM 12 activity. [2/]
Prior Year Expenditures And Encumbrances MONTHS 01-13 Run type **S** or **C** [1/]	Cumulative from inception through PM activity.
Run Type **A** [1/]	Cumulative from inception through FM 13.

[1/]   When FM 13 and all prior years are allocated, PCAs defined as Cost Allocation Table Distribution Types 1, 2, or 3 (the standard costing methods) are treated as Distribution Type 5, which uses the Object Range Low of 00100 to Object Range High of 19900 (Personal Services) to determine the distribution base.

[2/]   If manual statistics are used and you use a cumulative basis, statistics must be reloaded in FM 12 after the FM 12 Cost Allocation / Fund Split and before FM 13 Cost Allocation / Fund Split.

[3/]   When distributing encumbrances, the Credit PCA assigned in the Cost Allocation Table is always ignored, and the credit is recorded to the PCA being allocated.

OPTION #1 -- Cost Allocate/Fund Split Fiscal Month 13 Expenditures Only

To run cost allocation/fund split for FM 13 _expenditures only_, use the new year OC Table to set the following indicators:

RUN COST	=	**C** or **Y**
RUN TYPE	=	**A**
ENCUMB ALLOC	=	**N** or **Blank**
LAST STEP RUN	=	**00** (Zero-Zero)

FM 13 expenditures should not be allocated more than once.

OPTION #2 -- Cost Allocate/Fund Split Fiscal Month 13 Encumbrances Only

Encumbrances remaining in the Clearing Account after adjusting entries have been made must be cost allocated and fund split to their ultimate funds. The allocation of encumbrances is based on the agency's cost allocation tables, but the credit is always back to the same PCA where the encumbrance was established. (Expenditures can recover in the same or different PCAs.) The fund split of encumbrances is based on the funding percentages contained in the PCA table.

NOTE: Allocated encumbrances at year-end do not post to the Grant Project File. Therefore, these encumbrances are not reflected on the F01, Summary of Project Revenues and Expenditures Report.

To run cost allocation/fund split for FM 13 _encumbrances only_, use the new year OC Table to set the following indicators:

RUN COST	=	**C** or **Y**
RUN TYPE	=	**A**
ENCUMB ALLOC	=	**E**
LAST STEP RUN	=	**00** (Zero-Zero)

Unlike the cost allocation of expenditures, encumbrances may be allocated as many times as necessary. (There are two exceptions–see the Exhibit III-1 footnote.) Subsequent allocations reallocate only those items that have changed from the previous allocation.

OPTION #3 -- Cost Allocate/Fund Split Fiscal Month 13 Expenditures and Encumbrances

FM 13 cost allocation/fund split of both expenditures and encumbrances can be processed at the same time. Option #3 takes the fewest days to complete and avoids potential OC Table maintenance errors.

to the subsequent section titled *Correcting Encumbrance or Accrual Entries/Allocation* for instructions. For funds where revenue collections must be considered, verify that all receipts earned have been billed and/or accrued and revenues received in advance do not contain receipts for the current accounting period (B04, F01, and G02 reports).

In most agencies, the year-end review of budgetary expenditures is done in conjunction with Budget Office staff. If a scheduled line, appropriation, fund or cash in a fund is overexpended, adjustments must be made prior to statement preparation. It may be necessary to move expenditures/encumbrances, submit a Budget Revision or Deficiency Request, request a loan, or other appropriate action. Under no circumstances should the Accounting Office reverse accruals, expenditures, or encumbrances that are legitimate costs of a program or category.

Making Adjustments after FM 13 Cost Allocation/Fund Split

To make expenditure/encumbrance adjustments after FM 13 cost allocation/fund split, FM 13 must be reopened by setting the OC Table Prior Year Open indicator to **Y**. If encumbrance adjustments are needed, it may be possible to re-run the encumbrance allocation (see Option 2 in the preceding section), *however*, once manual encumbrance adjustments are entered (TC 312/TC 316), the automated encumbrance allocation process should **not** be used. The following describes some adjustments that may be necessary:

Move Encumbrances to New Year
If appropriate, do the following to move encumbrances to the *new year*:

1. Disencumber encumbrances in FM 13

   ✪ Use TC 213 in FM 13 to shift encumbrances to the new fiscal year; and

   ✪ If the encumbrances are not direct charged to the appropriation being adjusted (i.e., they are in the Clearing Account), reallocate encumbrances (see Exhibit III-1, Option 2) or manually adjust allocated encumbrances. If allocated encumbrances are manually adjusted, use TC 312 to post to the Clearing Account and TC 316 to post to the appropriation being adjusted using the ultimate funding information.

2. Reestablish encumbrances in the *new fiscal year*

   Use TC 211 in the *new fiscal year* (CM or PM) using the new year Indexes/PCAs to reestablish the encumbrances with the revised funding. (An alternative process is to use TC 211 with a zero amount and TC 212 with the actual amount. TC 211 establishes the document and TC 212 places the encumbrance amount in the adjustments field, since it is not a new encumbrance.)

RECORD YEAR-END PFA

FM 12 and FM 13 cost allocation occurs after the SCO closes the appropriation accounting records. After FM 13 cost allocation is complete, the GLA 6297-Allocation Clearing Account remaining balances represent a reconciling item between the agency and SCO year-end appropriation balances. This reconciling item is displayed in the SCO/CALSTARS appropriation reconciliations as an "Adjustment Per DB1" for PFA Pending. The PFA Pending amount must be reported as a "Due To" or "Due From" accrual in the year-end financial statements. Reclassification entries must be posted to move the GLA 6297 account balances to GLA 3110-Due to Other Funds or GLA 1400-Due from Other Funds to properly report the accrual.

Using a FM-**PY** DB1 report, develop a reclassification worksheet (See Exhibit III-3 for an example). Make a list of each appropriation and its corresponding GLA 6297 balance from the DB1 Report (ending balance column). Determine the adjusting entries that correspond, as follows:

Clearing Account:

>   TC 540 - Reclass 6297 - Establish **Due From** Other Funds
>   Dr. 1400 Due From Other Funds/Appns
>   Cr. 6297 Allocation Clearing
>   **AND**

Program or Fund Receiving Charges:

>   TC 541 - Reclass 6297 - Establish **Due To** Other Funds
>   Dr. 6297 Allocation Clearing
>   Cr. 3110 Due to Other Funds or Appropriations

Once the PFA reclassification entries are made, the balance for GLA 6297 on the DB1/DB2 Report should be zero. If the amount is not zero, adjusting entries for GLA 6297 are not complete.

The agency prepares a Plan of Financial Adjustment transfer request after completing the year-end cost allocation and fund distribution. The PFA transfer request will include expenditures for both FM 12 and FM 13.

These entries are reversed in the new year.

NOTE: To have these entries automatically reversed during the Year-end Open process, they must be coded according to the Automated Accrual Reversal Process requirements discussed in Chapter II, section *Use of Fiscal Month 13 for Year-end Adjustments.*